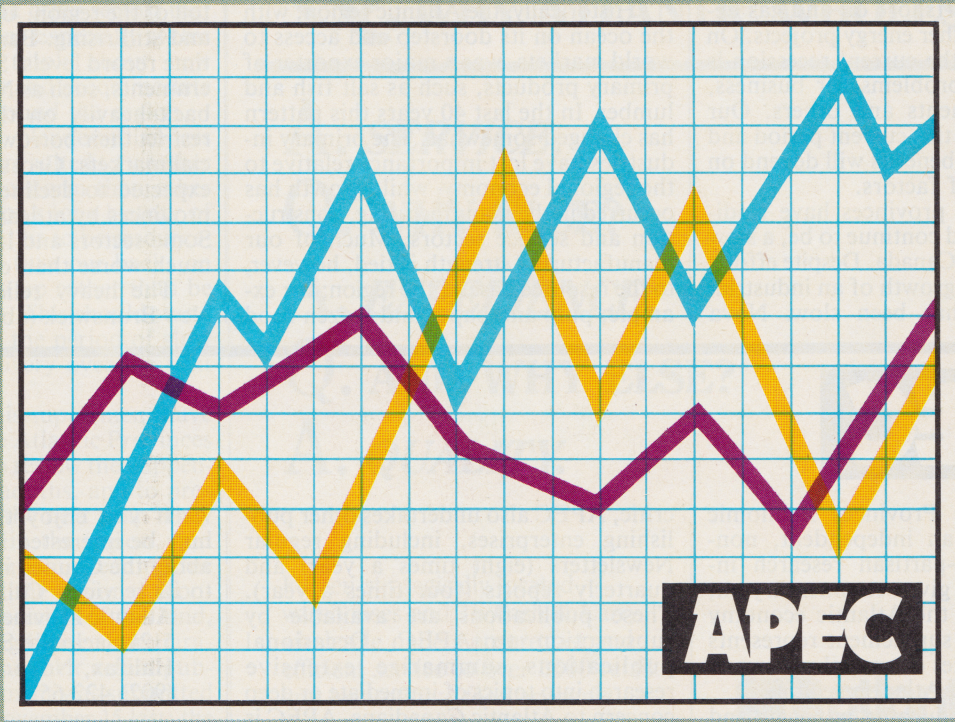
SPECIAL
PULL-OUT SECTION

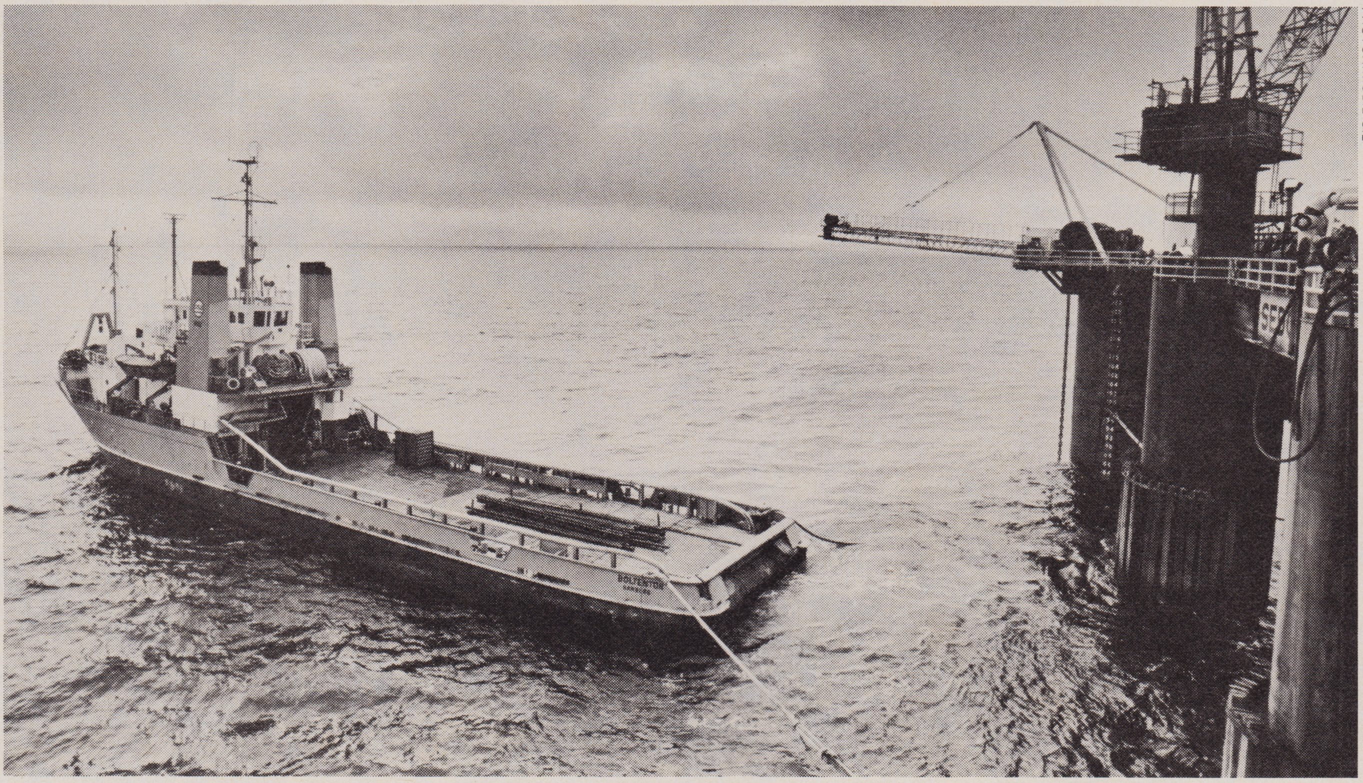
Atlantic Perspective

A year-end review of economic conditions in 1982 with an outlook for 1983 and beyond, prepared by the Atlantic Provinces Economic Council.



The Atlantic Economy:

APEC
Atlantic Canada '83



PHOTON/MOBIL OIL

Hindsight on 1982

The Atlantic region is currently facing tough, but interesting, times. On the one hand, there is great potential from offshore oil and gas development and other energy projects. On the other hand, the current recession is creating severe problems for business, labour, governments and others. Our ability to survive this current period and maximize future benefits will depend on a wide variety of factors.

The Atlantic provinces have traditionally been, and continue to be, a slow growth region of Canada. Despite efforts to encourage the growth of an industrial base, progress has been slow. Nova Scotia and New Brunswick have seen significant growth in the manufacturing sector, but in none of the provinces has this growth been sufficient to meet the need for employment. Emigration from the region has thus characterized most of the post-war period.

Historically, the Atlantic region, with the ocean on its doorstep and access to world markets, was a major exporter of primary products, such as salt fish and lumber. In the last 40 years this pattern has changed somewhat. The primary industries have lost importance relative to the regional economy, while growth has occurred in the manufacturing, construction and service sectors. Much of our manufacturing strength is tied, however, to the resource base of the region; for example, pulp and paper and frozen food products. Our reliance on the resource industries and on the service sector, much of which operate on a largely seasonal basis, means that we tend to have relatively low wages, and prolonged high unemployment.

At present, the recession is taking its toll of the region. Unemployment is high and still rising. Bankruptcies are at all-time record levels. Some provincial governments, such as Nova Scotia, have cut back heavily on their expenditures to restrict their borrowing in external financial markets. Gross domestic product is expected to decline in real terms in all provinces by at least 2 per cent in 1982. Some sectors and localities are affected much worse than others.

The heavy reliance on forestry in New Brunswick (about 20 per cent of its

APEC

The Atlantic Provinces Economic Council is an independent, non-profit, non-partisan research institute which has given commentary on, and analysis of, the Atlantic economy since 1953. This supplement represents the latest in a series of annual reviews of conditions in the Atlantic region.

In its role as educator, advocate and critic, APEC also undertakes other publishing enterprises, including regular Newsletters (eight times a year) and quarterly reports (four times a year). These publications are available by subscription to APEC. Occasional publications summarize extensive research into topics of immediate or deep concern to Atlantic Canadians. APEC is almost unique in the region in being able to speak for the entire region, and provide a unifying voice.

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total provincial output) means that the current reduction in demand for both pulp and paper is affecting certain areas very badly. Unemployment is estimated to be as high as 40 per cent in parts of the Northeast. Poor potato prices and fewer tourists this year in Prince Edward Island mean output could drop by 3 per cent. Newfoundland's three major industries (pulp and paper, iron ore and the fishery) are all encountering difficulties. Unemployment in this province, at 19 per cent, is the worst in the region, and the outlook is extremely gloomy.

Only Nova Scotia, with its relatively more diversified economy and the prospects of development of the Venture natural gas field, has a trace of the enthusiasm that prevailed in the region two years ago. Even here, this is largely confined to certain parts of the province, such as Halifax-Dartmouth and the Strait of Canso. In other locales, rising unemployment and continuing layoffs give little reason for optimism.

Rather than becoming mired in gloomy statistics and events which presently permeate the media, the region should be looking for lessons from the current situations to prepare for the years ahead. Certainly, there seems to be an increasing appreciation among people in the region that we cannot put all our eggs in one basket, that it is unrealistic to expect one big project (such as offshore development) to provide a solution to all the region's economic problems. This is not to underestimate the enormous potential benefits of such a series of projects, but only to warn that we should not get too carried away by our enthusiasm and overlook other sectors that also warrant attention. Especially at this time, we need to think about new strategies to promote and accommodate industrial growth around the region.

Maritimers and Newfoundlanders alike are perhaps more suited to weather the current economic storm than other Canadians. The region's long history of hard times has forced us to be resourceful and wily, able to turn our backs on the squalls that blow up rather than be bowled over by them. This should stand us in good stead for the period of slow adjustment and recovery over the next few months.

The articles in this supplement have been prepared by the Atlantic Provinces Economic Council to review the happenings of the past 12 months, and to provide an outlook for the next year. They reflect the diversity in the region, and should provide fascinating reading for anyone interested in the regional economy. As with other exercises of this kind, however, there is a lag between preparation of the articles and their actual publication. This supplement was submitted for publication on November 15 last; the information reflects the best of APEC's knowledge to that date. Subsequent events, however . . . ■

Interest Rates:

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Is the worst over?

Over the last few years, no other economic indicator has received as much public attention as interest rates. They have become the chief weapon used to fight inflation both in Canada and in the United States. The policy is based on the assumption that we can influence total expenditure in an economy by manipulating rates, which then influences the amount of money in circulation, and thereby regulates inflation by increasing or decreasing the amount of money available to be spent. The total amount of money available to consumers and businesses through banks and other lending institutions is the key to this process. The overall aim of the Bank of Canada is to allow growth of the money supply only in line with the growth of industrial output. This, in theory, would avoid the inflationary problem of recent years when too much money has been chasing too few goods and services.

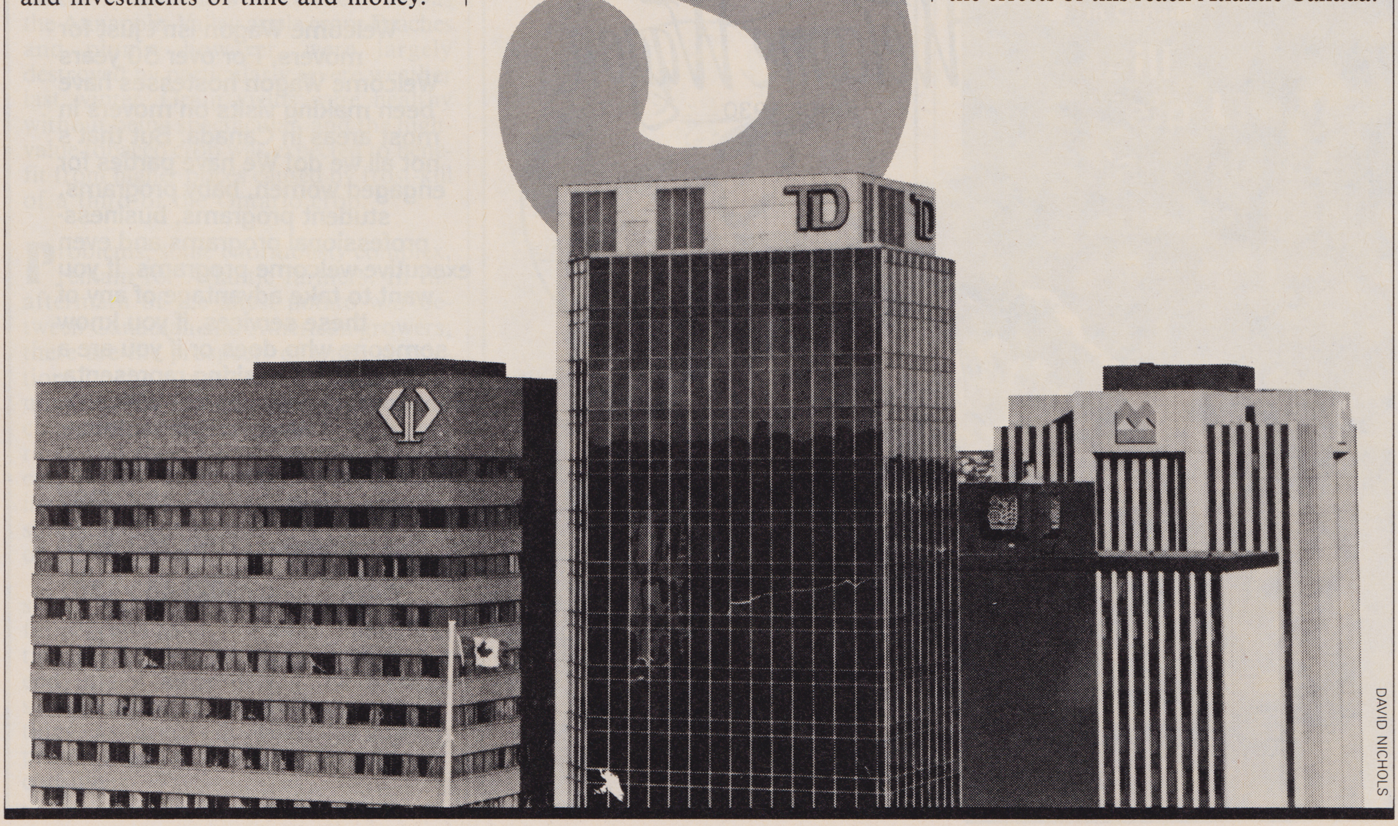
The theory involves several uncertainties, such as the time period required for effective action before high interest rates themselves contribute to inflation. There is also the undesirable effect of reduced demand on industrial output, with the likelihood of layoffs, plant closures and business failures. In this respect, the fight against inflation involves a direct trade-off in terms of jobs and investments of time and money.

The total effect in Canada has been complicated enormously by ripples from similar policies in the United States. The two economies are so closely tied to each other that interest rates must move in step to prevent capital outflows from one to the other; usually capital will flow towards the higher interest rates with subsequent pressures on exchange rates. In fact, there has had to be a substantial premium on Canadian rates to prevent undue runs on the Canadian dollar in favour of American funds. The exchange rate ramifications of an interest rate-based monetary policy, therefore, can also be undesirable.

By the middle of 1982, short-term rates in Canada started a downward slide due mainly to a reduction in the American inflation rate. The Canadian inflation rate has not performed as well, and still remains quite high. A big change of direction in American policy, however, is a first essential step to economic recovery around the world. Lower interest rates in the United States are expected to persist and even get lower over time. This reduction will probably not be smooth, however, particularly in light of huge federal deficits anticipated on both sides of the border. This will be felt in particular if private sector demand for credit picks up.

Lower interest rates will be most welcome in Atlantic Canada. Consumer spending is sharply down from year-earlier levels, and the region relies to a great degree on retail sales to fuel overall economic growth. Most recent figures on retail sales indicate a mixture of trends in the region, but in no case is any increase close to corresponding rates of inflation. Sales of new motor vehicles and other higher-priced durables (such as appliances) are still significantly below earlier levels.

Lower interest rates around the world can only benefit the Atlantic economy, as most of its major markets are outside the region. Consumers and businessmen, however, have been severely burnt by events of the last 18 months, and their expectations of the future are correspondingly extremely cautious. Recovery in the United States may pick up speed by mid-1983, but it will be a while before the effects of this reach Atlantic Canada.



DAVID NICHOLS

Agriculture:

High costs, uncertain prices

The five-yearly profile of the Atlantic agricultural sector, as revealed by the 1981 census, indicates the industry as a whole is structurally sound. After decades of decline, the 1970s seem to be a watershed of sorts, and the region's farmers are increasingly competitive in a number of markets. Although the number of farms is still declining (there were less than 13,000 in 1981 compared to a little over 17,000 in 1971), the rate of decline in numbers has slowed significantly. The total area in farms went down from a little more than 1.4 million ha to just over 1.2 million ha, but within this total the area of improved land increased from 560,000 ha to 583,000 ha. This land tended to be concentrated in larger farms (an average size of 94 ha, up from 83 ha in 1971), and indicates a more intensive use of a generally good land resource. Particularly encouraging also is the fact that the average age of farmers seems to be going down; less than 30 per cent were under 45 years old in 1971, but more than 40 per cent were in this age bracket in 1981.

This generally robust state of health is, however, all but obscured by concerns over present circumstances. In common with many other small enterprises, farm bankruptcies are up, and prospects of increases in realized net income during 1982 are slim. Demand for food tends to align closely with overall economic performance, and recession usually means people buy less, waste less, eat out less, or grow more in gardens. This reduced demand must affect the farmer's income, particularly as costs continue to increase steeply.

The effects of increasing costs can be seen throughout the industry in Atlantic Canada. Beef producers have liqui-

dated large parts of their herds because of the expense of bringing an animal from calf to slaughter. High interest rates have delayed any rebuilding of these herds. Potato growers face higher and higher planting costs and widely fluctuating markets. This may account in part for the reluctant approval in principal given by growers to an Eastern Canada Potato Marketing Agency administered by the federal government. Dairy farmers have for long been sheltered from increasing costs by a pricing system for their products which reflects costs of production. For the next two years, these price increases will not exceed federal six-and-five guidelines, a development made worse by a broadly declining demand for dairy products as the school-age population contracts. Similar restrictions will apply to egg prices.

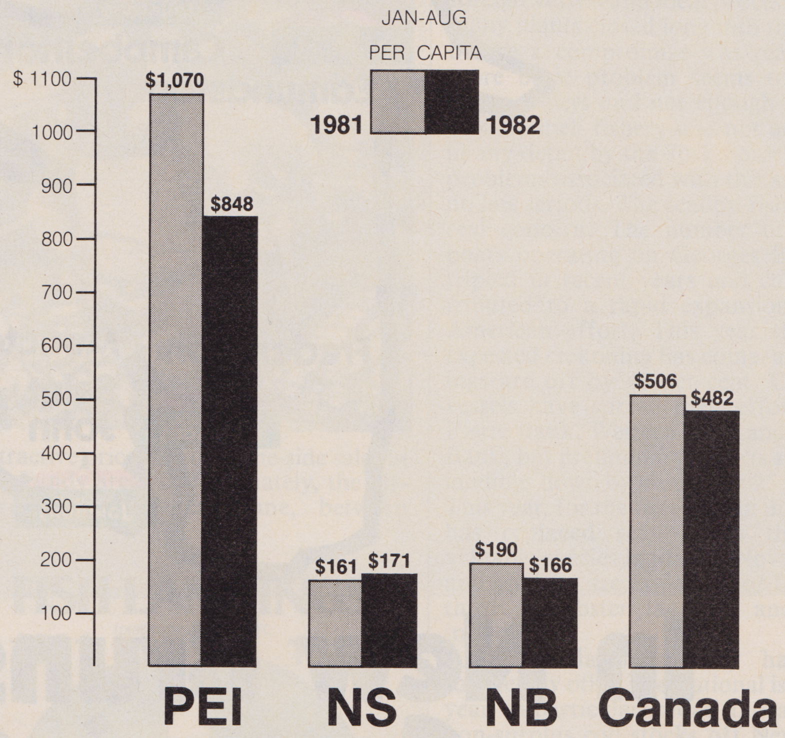
Maritime farm cash receipts were generally down in 1982, partly because 1981 receipts were abnormally high after excellent potato prices paid for the 1980 crop during the early part of 1981. Receipts for the 1981 crop are much more average, and initial signs are that the 1982 crop will bring more trying times for growers in Prince Edward Island and New Brunswick. Nova Scotia's farmers, with a much lower reliance on any one farm commodity, have increased receipts in 1982. Hog and cattle farmers benefited from generally higher prices during the year, although these declined in the second half. There is some strength expected in these prices over the next 12 months or so, especially as the regional cattle herd is reduced.

Cash crops other than potatoes have done well in 1982. The strawberry and blueberry harvests were excellent, as was the Annapolis Valley apple crop. Peaches and plums, however, were largely destroyed by particularly severe weather last winter. Grain yields were healthy without being spectacular, and the high-value tobacco crop was expected to benefit from higher prices caused by frost-kill of a third of the Ontario crop.

Problems, some enormously complex, remain for Atlantic farmers. In the aftermath of the latest potato war between Canadian and American growers, there are the prospects of trade restrictions by the Americans. There is much uncertainty surrounding proposed changes to the Crowsnest Pass freight rates and their effects on eastern agriculture. Costs of production continue to increase and erode net returns. Markets shrink, and competition from other parts of North America intensifies.

All of this demonstrates the many-sided and complex situations facing farmers and food processors. Simplification is tempting but dangerous. In the end, the weather during the growing season tends to override most other things as farmers do what they do best; produce food at a reasonable cost to the consumer. ■

FARM CASH RECEIPTS



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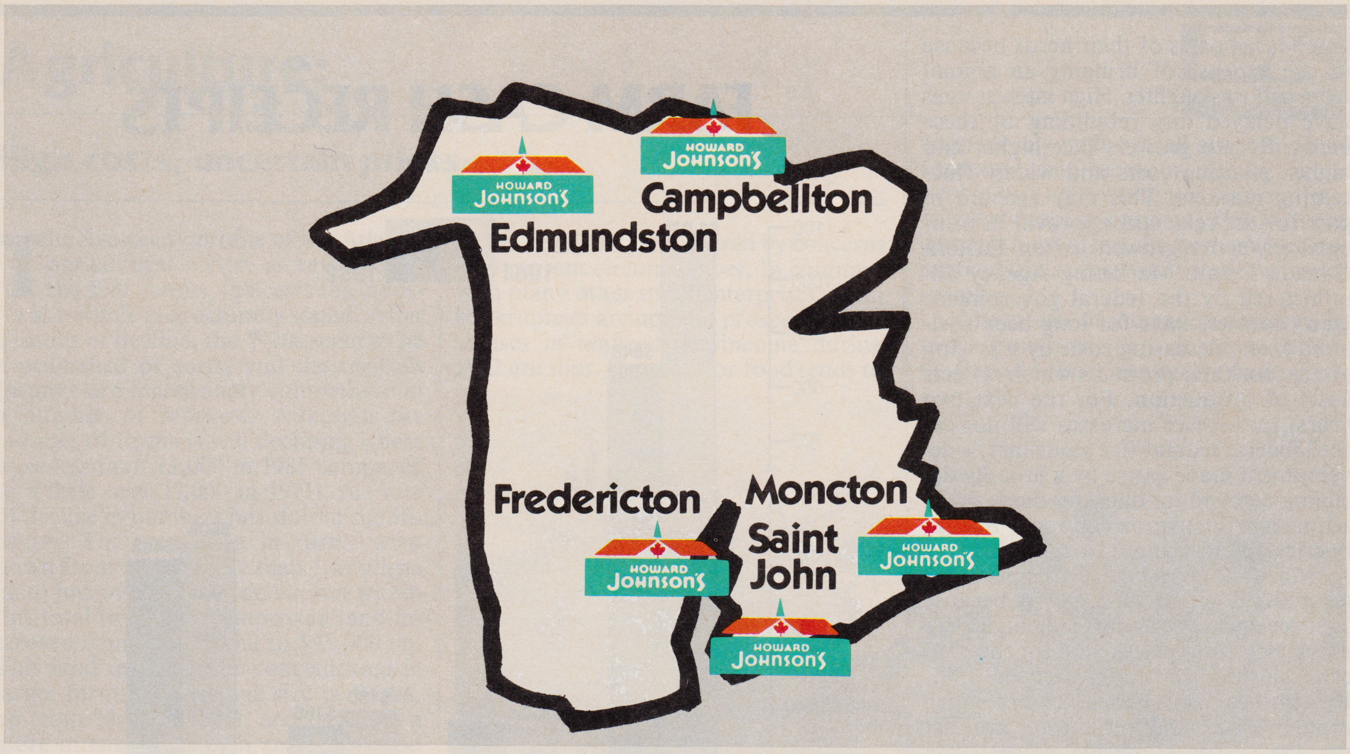

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The Fishery:

The gospel according to Kirby

In January, 1982, the Prime Minister announced that a Task Force to study the troubled Atlantic fishery was to be set up with Dr. Michael Kirby, fresh from a successful role in the repatriation of the Canadian Constitution, as its chairman. Preliminary statistics appearing at that time confirmed that 1981 was a disastrous year for this important part of the Atlantic economy.

A variety of problems contributed to this poor showing, such as high interest rates, high inventories, undiversified export markets and sluggish prices. The Atlantic fishery also carries an additional burden in the form of a complex array of structural problems. These include stock problems (both gluts and shortages), crushing and occasionally inconsistent regulations, overcapitalization, uncontrolled expansion of effort, problems of managing a common property resource, confusion between economic and social goals, quality and marketing problems, and the different goals of divergent interest groups.

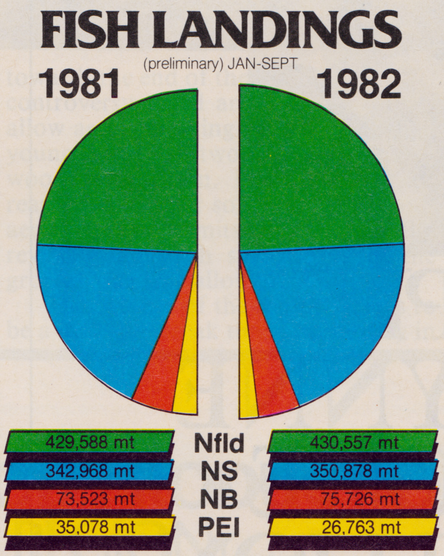
Given the abundance of problems and the dim prospects for the medium term, the appointment of the Task Force was not entirely unexpected. More than 100 meetings with fisheries interest groups in the Atlantic provinces and Quebec, a survey of 110 processing plants, and another of 1,300 randomly selected fishermen were conducted. The distribution of an "Issues and Options" paper by the Task Force reflected the group's concern about covering all the issues and presenting all the options. The consensus at the time of its release and at 15 subsequent meetings with concerned groups was that, although many points were contentious, all the bases were covered.

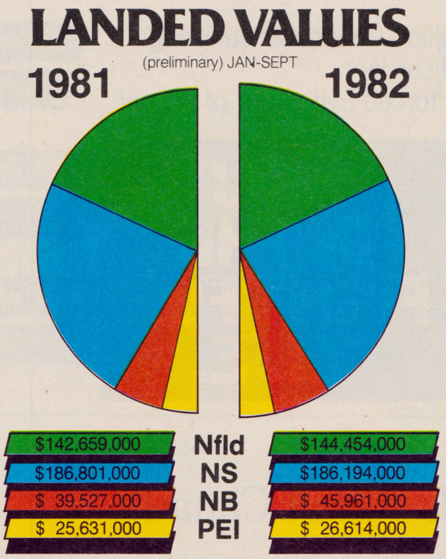
The Task Force's final report was awaited as this supplement went to press. The fishing industry in 1982 only showed a slight improvement over the previous year. Preliminary statistics indicate marginal improvements in landings and values with much of this due to a dramatic recovery in cod landings in most areas. In particular, the Newfoundland trap fishery seems fully recovered from a disastrous 1981 season. Plants early in summer could not accommodate all landings, and were occasionally reluctant to accept large amounts of small, immature fish. There was no great resurgence in price, unhappily, with prices for cod blocks going down.

The herring fishery had lower landings, although dramatic increases in landed values occurred as a result of very

PROVINCE OF NEW BRUNSWICK

attractive prices for over-the-side sales in the Fundy area. Unfortunately, the differential, $200 per tonne, between





foreign vessels and local processors kept many plants closed long into the season before a compromise was reached. A more basic problem seems to be too many seiners and not enough herring.

The shell fishery was not addressed in any detail by the Task Force, but the problems associated with this sector are no less serious. The scallop fishery is of real concern. The number of scallop boats operating on Georges Bank has tripled in recent years and can be attributed to a rapid expansion of the American effort. This year the long-expected reckoning has come, and landings are off by 40 per cent. Canadian vessels have spread their effort to St. Pierre Bank, Western Bank and Browns Bank, but preliminary reports still show landings down by more than 25 per cent. This year, for the first time in many, cod has replaced scallops as the most valuable species landed in Nova Scotia, and scallops are in danger of falling to third as lobster landings and prices improve.

The Atlantic fishery has been touched by other international issues this year. In particular, broad allocations of non-surplus cod stocks off Newfoundland and Nova Scotia to foreign vessels in return for potential market access has drawn the wrath of many interest groups and provoked the anger of Canadian fishermen who sit idle while foreign vessels ply the Canadian zone.

This is the background to the Kirby report. Observers, no doubt, will be studying the report closely for hints of the future structure of the Atlantic fishing industry, but already in 1982 new structures have begun to form. The system of enterprise allocations for northern cod (with quotas assigned to processors rather than to boats) was termed an early success. Major processors have joined forces in their marketing efforts. Two of the largest (National Sea Products and H.B. Nickerson and Sons) have been considering a formal merger. Measures to improve quality are gaining official if not wide acceptance. A recovering American economy (the market for 80 per cent of Atlantic Canada's fish production) should improve prospects.

Indeed, there are some promising signs, but the salvation of the industry requires that still more changes occur. Long-term policy goals must be defined. For this, all eyes turn to the recommendations of the Task Force, and to the Department of Fisheries and Oceans which will be charged with their implementation. Perhaps the major issue will be the degree to which policy-makers will accept the recommendations, given that controversy usually attends any changes proposed for the fishery. ■

Forestry:

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High inventories and modernization

Canadian newsprint production in the third quarter of 1982 hovered around 70 per cent of capacity. Housing starts nationwide at the same time were at a 22-year low. These two facts alone do much to explain the plight of Atlantic Canada's forestry industries, especially when similar trends typify other important markets for Canadian production, such as the United States.

At the beginning of September, Maritime lumber production was estimated to be 40 per cent below normal. Actual output from mills was down by one-third, and much of the milling which has taken place in 1982 was to prevent stockpiled trees falling prey to decay and disease. Export markets for Maritime lumber (mostly in the United States and Western Europe) are confused as exchange rates fluctuate and new sources of supply alter market shares. The Eastern Canadian share, for example, of the U.K. market dipped to 3.5 per cent in the first five months of 1982 compared to 8 per cent a year earlier. Much of the slack has been taken up by Swedish and Soviet supplies. Further devaluation of the Swedish krona will make penetration of this market very difficult. More complications are indicated by murmurings from American lumbermen of protection from Canadian imports.

The story is similar for pulpwood producers. To the end of August, total production from Atlantic mills declined by about 25 per cent over a year earlier. Most of the region's pulp mills have had closures of varying lengths as demand varied. Earlier in the year, buyer expectations of labour disruptions in a year when many contract negotiations took place prompted build-up of inventories. In fact, time lost to strikes has been quite small, but high buyer inventories must be run down before new purchases are contemplated.

These trends and numbers tell only part of the story. Lumber-producing areas, such as New Brunswick's Miramichi district, have chronically high unemployment levels as sawmills remain closed. Many communities which rely on a single pulp or newsprint mill for the bulk of local activity live constantly under the threat of shutdowns for varying periods of time. In this respect, the true cost of the recession is incalculable.

Longer-term outlook for the pulp industry is more rosy. Most of the region's older mills have ongoing capital investment programs with the help of federal incentives under a series of Forestry Development Agreements. The basic aims are to reduce harmful environmental emissions, and to combat increasing foreign competition by increasing efficiency. The degree of the upcoming competition can be gauged from estimates that, in 1981, world demand for newsprint rose by about 824,000 metric tons; during the same year, production capacity increased by almost 1.2 million metric tons, for a surplus of almost 400,000 metric tons.

To compete effectively, Canadian pulp mills must also have assured supplies of trees. In early September, 1982, came a federal policy statement on forest renewal. Considered by many to be a belated attempt to rebuild fibre supplies from a sadly depleted resource, the statement proposes to increase public and private spending by at least an extra $100 million annually on top of the $300 million already spent. This would merely sustain existing harvest levels. To enhance harvestable supplies in line with anticipated increases in worldwide demand for forest-

ry products will require expenditures of $650 million annually. During a time of recession in particular, the major challenge will be to translate these words into deeds.

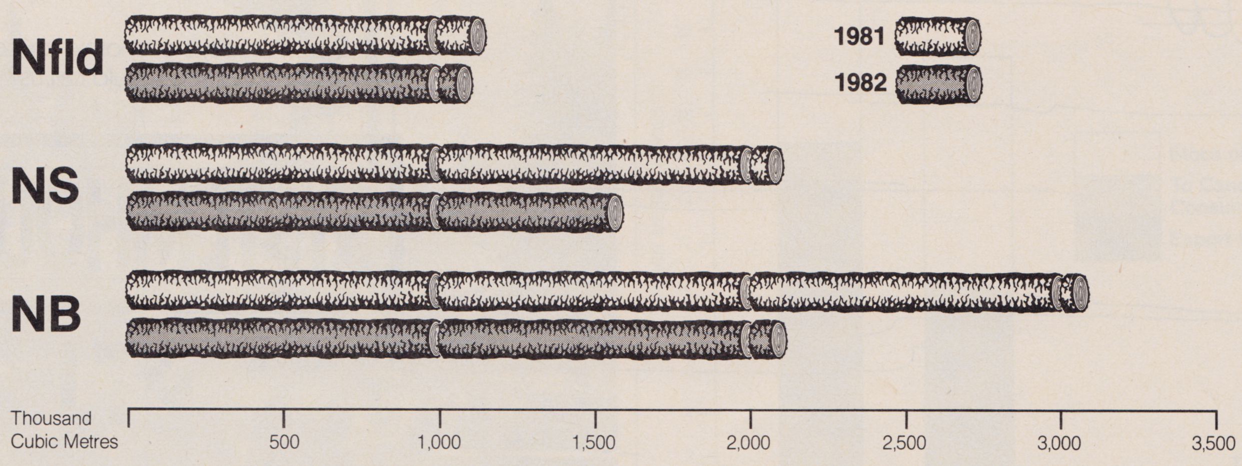
PROVINCE OF N.B.

Atlantic supplies of fibre must also be estimated with due consideration for insect infestation. During 1982, budworm damage in Newfoundland, Nova Scotia and New Brunswick was perceived to be declining. Scientists are naturally cautious about such trends, however, and preliminary egg mass counts in the fall of 1982 in Nova Scotia seem to justify this caution. Infestation may actually be increasing again, and findings for the other provinces are anxiously awaited.

Both Newfoundland and New Brunswick have aerial spray programs to combat the budworm, while Nova Scotia so far has only carried out limited spraying with a bacterial agent. The contentious issue of aerial spraying still simmers throughout the region, with passions high on both sides. In Nova Scotia towards the end of the summer of 1982, controversy raged around decisions to allow aerial spraying of chemicals over young growth softwoods to deter hardwood competition. For a number of reasons, and after some confrontation, aerial spray permits were eventually revoked, although spraying from the ground was still allowed.

The balance of the century seems to be a make-or-break time for forestry in Canada. Supplies of wood must be safeguarded and increased by improved management, more efficient use of available supplies and increased planting. Markets must be maintained by increasingly efficient production. In the shorter term, however, some semblance of normality must be achieved for both pulp and lumber sectors so that inventories can be reduced, and idle manpower and equipment put back to work.

PULPWOOD PRODUCTION
ATLANTIC REGION Jan-Aug



Source: Statistics Canada

Mining:

Riding out the storm

The recession has, by and large, put the region's mining sector on hold. Companies have laid off workers, reduced exploration programs and readjusted expansion plans. Low levels of consumer buying in major markets (especially for higher-priced articles such as appliances and cars) mean that prices for base metals (zinc, copper, and lead) have been at their lowest levels since the Second World War. Mine closures have resulted. Heath Steele announced a layoff of about 600 workers in New Brunswick, only to have a stay of execution provided by the provincial government. In the same area, Brunswick Mining and Smelting are cutting down staff over the next 18 months unless markets improve dramatically. The same company has postponed building a new $360-million zinc reduction plant. Consolidated Rambler in Newfoundland kept their copper mine closed, although development of a new ore body at the long-established base metals mine at Buchans continued; commercial production, however, will depend on market conditions in early 1983.

The massive iron ore mines in Labrador have spent at least part of the year closed, and although workers were recalled in the fall, the total labour force will not reach previous levels. The mine at neighbouring Schefferville in Quebec suffered a worse fate, being closed indefinitely about the same time as recalls were announced at Labrador City and Wabush. Soft markets have delayed the reopening of Consolidated Durham's antimony mine near Fredericton, and a potentially valuable tin deposit in Yarmouth County, Nova Scotia, must await improved conditions before development can begin. It is encouraging that this metal property was picked up quite rapidly by Rio Algom after the original owner, Shell Resources, decided to divest itself of most of its mineral holdings.

Exploration activity is normally fairly immune from economic slowdown, as it represents an investment in a company's future. The past year or so is an exception to this rule of thumb, and expenditures have been sharply reduced.

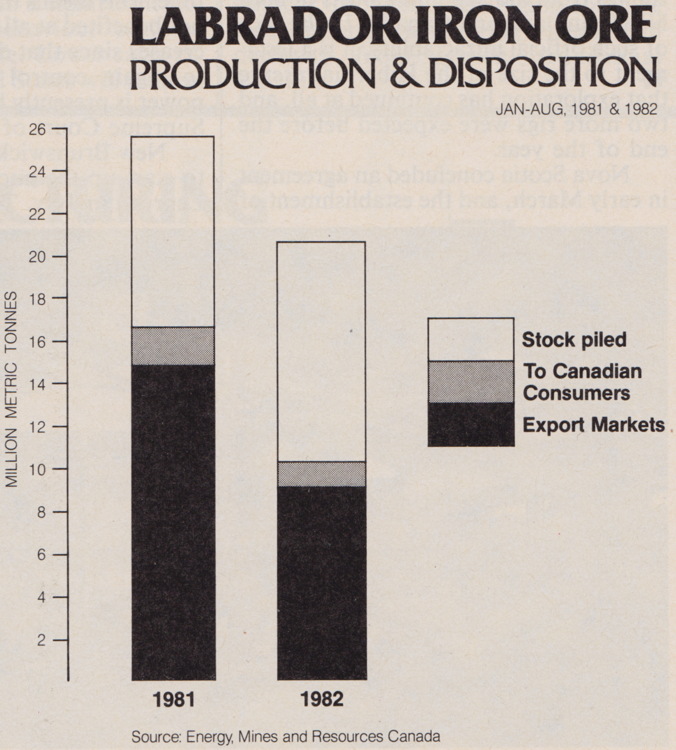
There are bright spots. Potash Company of America continues to develop its mine outside Sussex, with first production expected next year. Development of further potash deposits depends to a large degree on demand for fertilizer by farmers. The asbestos mine at Baie Verte in Newfoundland reopened under new ownership in the early fall.

There were also low levels of activity in the industrial minerals sector. Output of cement, sand and gravel and gypsum depend to a large degree on sales to the construction industry, and this industry in turn must wait for signs of lower interest rates for sustained recovery.

Since coal production to the end of the summer saw little gain over the same period in 1981, a year when Cape Breton miners were on strike for several weeks, this sector is evidently suffering from reduced demand. Local markets are static at best, and occasionally declining, as in the case of sales to Sydney Steel and the Nova Scotia Power Corporation. Overseas markets are similarly depressed, particularly after Poland dumped large quantities of coal in an effort to raise hard currency to meet debt payments. There is less hope, consequently, of a long-run development of reserves at Springhill, Nova Scotia, and in Pictou County, where a recovery operation at Thorburn closed down in the fall. The announcement of a Carbogel pilot plant in Cape Breton, to produce a coal-water mixture for electrical power generation, is a little more encouraging. Part of the project involves design of burners to be used in a six-month combustion demonstration by the New Brunswick Electric Power Commission station at Chatham. A new coal recovery plant in Cape Breton will produce thermal coal from waste dumps at an old mine site. The Cape Breton Development Corporation has plans, too, for a $2-billion expansion program over the next 10 years, involving three new mines.

As with most other sectors, the mining industry plods along in low gear and awaits general improvement worldwide. Indications are that buyers have maintained only low inventories, and sustained recovery could mean rapid expansion of output for base metals in particular. For other minerals, especially iron ore, stockpiles would be more than adequate to accommodate the early part of any recovery. ■

N.S. DEPT. OF MINES AND ENERGY



Energy:

The stakes get higher

As in most previous energy-related development, the indirect impetus behind events of the past 12 months came from the Organization of Petroleum Exporting Countries. The united facade which has largely enabled OPEC to dominate price movements for all energy over the past 10 years or so finally showed signs of crumbling. In early spring the base price of OPEC oil was set at about $41.50 per barrel, but in the months since, oil on the Rotterdam spot market has sold for as little as $28. Energy developments in the region depend to varying degrees on being able to predict quite accurately the movements of OPEC prices.

The offshore year began tragically, with the loss of the Ocean Ranger in a storm in mid-February. In case anyone ever doubted it, this disaster underlined the true costs of offshore hydrocarbon development in the Northwest Atlantic. The pall which this cast over Newfoundland seemed to set the stage for subsequent developments in the search for hydrocarbons off that province. Although two rigs kept drilling and three drillships completed a season off Labrador, earlier optimism has been severely dampened by lack of agreement between provincial and federal governments over the questions of resource management and revenue sharing. The acrimonious exchanges have continued, and it appears that resolution of the issue must await rulings from the Supreme Courts of both Newfoundland and Canada. In the face of such official intractability, it is a testament to the size of the Hibernia reserve that exploration has continued at all, and two more rigs were expected before the end of the year.

Nova Scotia concluded an agreement in early March, and the establishment of development ground rules seems largely responsible for a big increase in exploration activity in 1982. Two rigs were operating at the end of 1981; this had increased to five at the end of 1982, with the prospect of at least two more in 1983. New structures are being probed by new operators, and there is a commitment of at least $2 billion to exploration to the end of 1983.

This general surge in interest, of course, was also prompted by Mobil's announcement in mid-year that the Venture field off Sable Island contained enough reserves of natural gas to justify commercial development. Application to the National Energy Board to export this gas has already been made. It appears, however, that markets are not as strong as they once were. Excess supplies of western natural gas were the initial reason for building the Trans Quebec and Maritime Pipeline. This project is presently stalled in Quebec to allow study of alternatives in the Maritimes, including gas supplies from the Scotian Shelf. The other natural market is New England, but the possibility of western gas reaching this market via Ontario gives some cause for concern. Mobil has estimated 1988 as the earliest date for production from Venture.

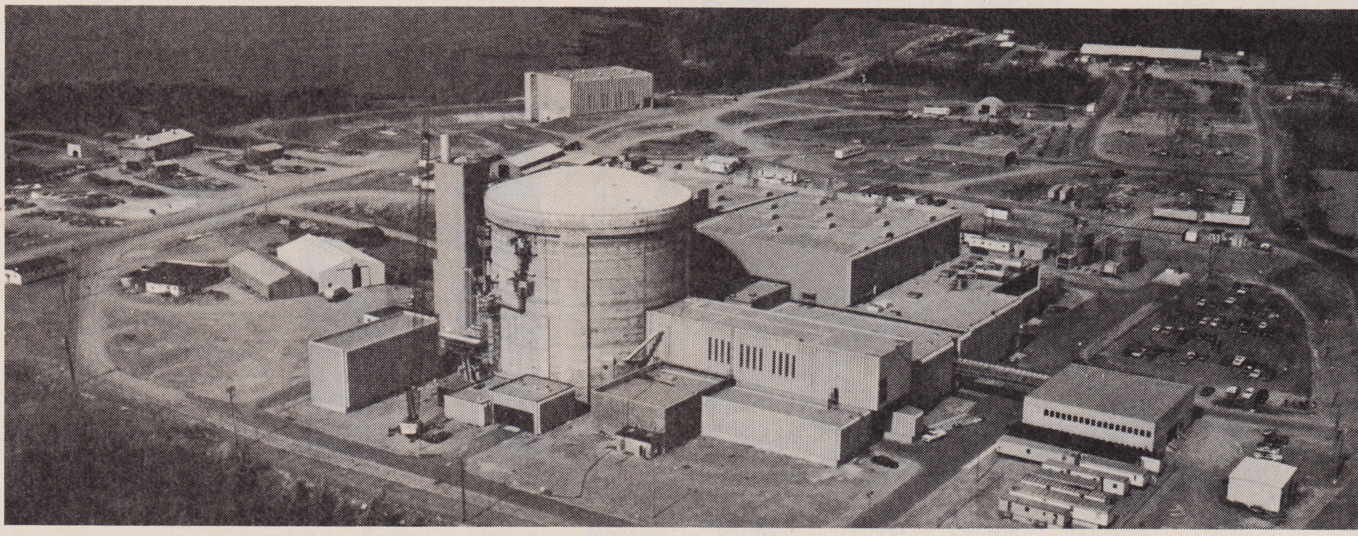
Newfoundland also failed to resolve its other major energy problem, the renegotiation of the Churchill Falls hydro contract. Hydro-Quebec presently takes the bulk of output for redistribution both within Quebec and in export markets. The contract was signed in 1960, at prices which prevailed at that time. This means that Newfoundland has not benefited at all from energy price increases since that date. A provincial act to regain control of Upper Churchill power is presently being contested in the Supreme Court of Canada.

New Brunswick received permission to start up the nuclear reactor at Point Lepreau in July. Testing was still under way at the end of the year after a slower-than-expected beginning. More than 40 per cent of the controversial reactor's output is contracted to various New England utilities, and N.B. Power is applying for permission to export a further 130 MW (about 20 per cent). There has been talk of a second reactor at Lepreau.

Part of Lepreau's power was destined for Prince Edward Island, until the agreement was dissolved in 1979. Islanders have the highest electricity costs in Canada, and a Commission of Inquiry which reported in August heard a wide array of views on the subject of power costs. There is little doubt that nuclear power is the lowest-cost alternative facing Islanders, but there has been a resistance to electricity from this source. P.E.I. has moved over the past five years to buying the bulk of its power supplies from mainland sources to replace on-Island oil-fired generation. In the face of steeply increasing costs for all Islanders, it seems doubtful whether resistance to Lepreau can survive much longer.

Nova Scotia remains committed to Cape Breton coal for its electricity needs in the immediate future. Once neglected in the face of cheap imported oil, new mines and coal-fired plants continue to be built. Some 300 MW at the Lingan complex are operational, and a further 300 MW capacity is under construction. In addition, the 18 MW Annapolis Basin Tidal Power Pilot Project has received its turbines, and work should be substantially complete before the end of 1983.

An appreciable part of the region's future economic development depends on energy projects with output both for internal use and for export. Present financial considerations make any new starts prohibitively expensive, and present markets are uncertain at best. That development will begin at some time seems beyond question, but major participants must examine the timing of their projects carefully. ■



PROVINCE OF N.B.

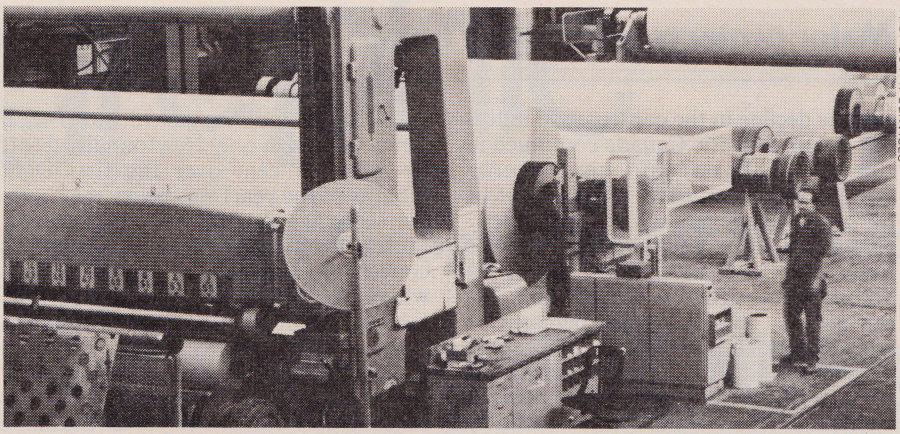
Manufacturing:

Operating below capacity

Low levels of activity in world markets have had a major impact on the production of manufactured goods in Atlantic Canada. With well over 50 per cent of manufacturing activity tied to the processing of natural resources, weak international demand for these goods has resulted in production slowdowns or closures. Coupled with reduced consumer spending at home, new orders declined throughout 1982. This has provoked a scramble to activate survival techniques, such as improved marketing, staff layoffs and inventory control.

Inventory control involves matching factory output with final demand more closely. High inventory levels are expensive, as a result of high financing, storage and moving costs. Failure to sell output, allowing production to accumulate in warehouses, has resulted in closures in pulpwood and paper mills, food processing plants and shipyards.

To the end of the third quarter, both the value of manufacturing shipments and employment levels were down. Newfoundland alone registered an increased level of shipments (by about 13 per cent in terms of value) due to increased activity in fish plants and pulp mills during the first half of the year. Even this increase may be substantially reversed by year-end, as final figures for the forestry sector in particular are recorded. New Brunswick has had the largest decline in the value of manufacturing shipments, followed by Nova Scotia. Figures for Prince Edward Island are not available, but in this province the year also saw fish plant and meat-packing plant closures.

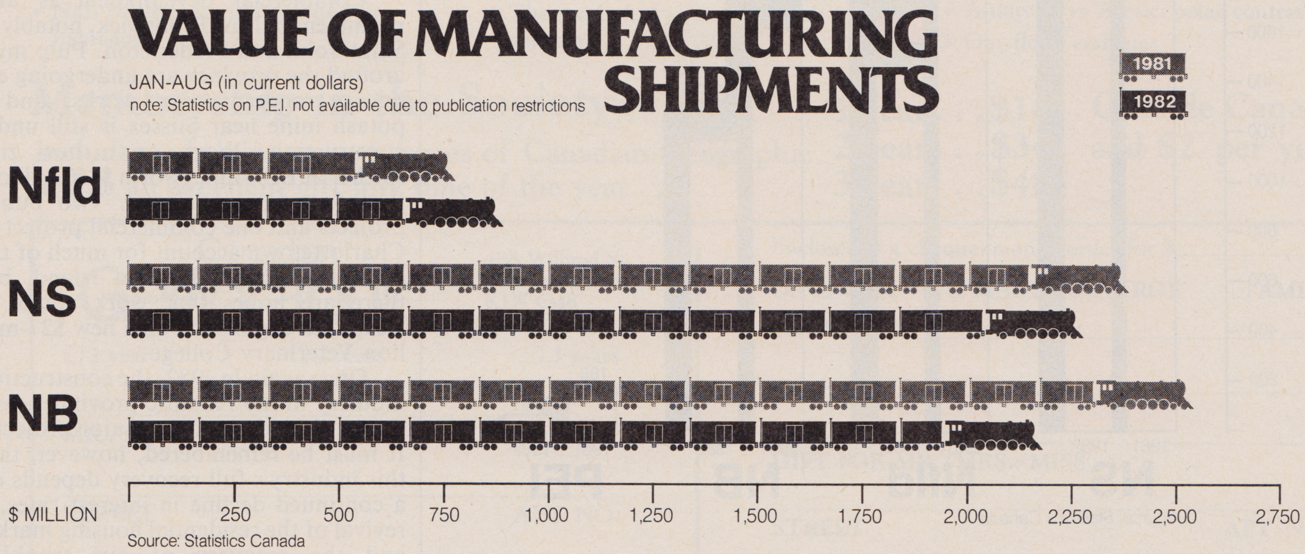

N.S. GOV'T. SERVICES

Sales of some items (food and forestry products) during the year were either slightly ahead of 1981, or managing to keep pace. Any adjustment for inflation would reveal a real decline in values. Final forestry-related figures for the year were expected to show substantial decline, as inventories in pulp and paper mills built up and temporary shutdowns were announced throughout the region. Lumber-related producers (plywood, boxes, panel-wood and so on) have had a similarly poor year, as have furniture producers. Other sub-sectors, such as chemical production, are closely tied to other secondary output in the region, and their output paralleled that of the other producers. Non-metallic mineral production, such as cement, was marginally up, but metal fabrication output was down.

The final outlook for 1982 depends on moving output from warehouses to final use. This relies to a significant extent on consumer behaviour both in Canada and elsewhere. Lower rates of inflation in the United States will reduce pressures on individual incomes, and lower interest rates may spur a delayed bout of buying. On the other hand, consumer expectations have been severely dented, particularly with respect to job security, as unemployment levels stay high.

The preliminary outlook for 1983 is for gradual recovery. At first, this will entail the region's manufacturers running down high inventories before full production is resumed. Laid-off workers may not be recalled before spring or summer.

In the longer-run, expansion of output depends on the ability to develop non-traditional manufacturing industries. The first steps have been taken, with high technology plants locating in Nova Scotia and New Brunswick. Businessmen are also casting eyes to the future, and the potential of offshore development. The impact of this development throughout the region could be most important in allowing a measure of diversity from present traditional activities. ■



Construction:

APEC
Atlantic Canada '83

Major projects offer some hope

The decline in the construction industry in Atlantic Canada continued in 1982. Even so, this sector represented 19 per cent of the output of the goods-producing sectors of the Newfoundland, New Brunswick and Prince Edward Island economies. In Nova Scotia, construction was even more important, accounting for 22 per cent of goods-producing output.

Basic indicators of construction activity, such as value of building permits and number of housing starts, clearly demonstrate the downturn. Housing assistance plans such as the Canadian Home Ownership Stimulation Plan seem to have met with only limited success, and single-family dwelling starts are down substantially in all four provinces. Provincial programs, where they existed, met with the same limited success due in part to the limitations imposed by strained provincial treasuries.

Value of building permits also went down, although only Newfoundland (off by 42.4 per cent over the first eight months of the year) was below the Canadian average decline of 33.1 per cent. Most of the activity in each province was concentrated in the major urban centres where the value of building permits generally went up. Halifax, for example, accounted for 34 per cent of permit value in the province for the period January to August. This represented a 116 per cent increase for this city over the same period in 1981.

The overall trend in construction spending was down, however, and much of this must be blamed directly on persistently high interest rates and reduced capital investment accompanying broad recessionary trends in all sectors.

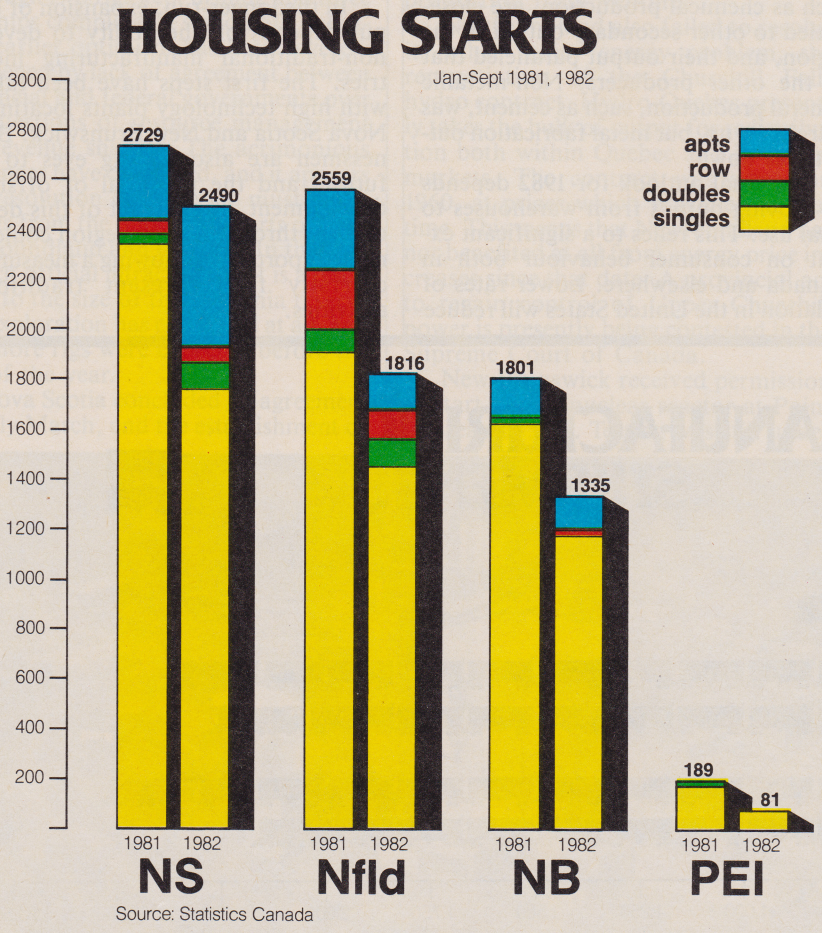
Fortunately, some large industrial, commercial and institutional projects have been able to keep the construction industry afloat if not exactly in the swing of things. Major projects, some with broad spin-off benefits, are vital counterweights to current trends. Government spending has traditionally played this role and is doing so once again, as demonstrated by increased capital account deficits in all of the Atlantic provinces except Nova Scotia for the 1982-83 fiscal year. As a result, government-sponsored major projects are very much in evidence.

Major projects throughout the region touch upon a number of sectors, and hold much promise for the future. In Nova Scotia work continues at the Halifax dockyard, the Annapolis Basin Tidal Power Pilot Project and at the Lingan Complex in Cape Breton. The $125-million Camp Hill Medical Complex in Halifax is, however, delayed, although work on a Veterans' Hospital will go ahead with federal funds. There are mixed feelings about the fate of the TQM natural gas pipeline, presently stalled in Quebec. Assessment of offshore gas reserves may result in an alternative Maritime pipeline to distribute gas, with an extension to New England, but this will take time.

Both Newfoundland and Nova Scotia stand to benefit greatly from construction associated with offshore developments, with significant work in the other two provinces. Patience will be required for much of this activity, however, as markets, energy prices, and continuing management disagreement between governments occupy centre stage. Newfoundland has other energy projects on the go, including the Cat Arm hydro scheme valued at $332 million. There is, in addition, commercial development in St. John's, and work on the Arctic Vessel and Marine Research Institute.

Commercial development is also prominent in New Brunswick, notably in Saint John and Fredericton. Pulp mills around the province are undergoing extensive modernization works, and a potash mine near Sussex is still under construction. Work on a new zinc smelter at Belledune (worth $360 million) is unfortunately delayed. Two public projects and one commercial project in Charlottetown account for much of the activity in Prince Edward Island, but there are hopes that work could be cleared to begin soon on a new $27-million Veterinary College.

Once again in 1982, the construction industry in the Atlantic provinces rests on the shoulders of the major projects. It must be remembered, however, that this industry's full recovery depends on a continued decline in interest rates, a revival of the residential housing market and the recovery of our troubled economy. ■



Transportation:

APEC
Atlantic Canada '83

Changes in the air, on the ground and at sea

The economies of the four Atlantic provinces rely on fast and efficient transportation links both internally and to major outside markets. Distance from major markets makes consideration of how to reach those markets a crucial part of overall business decision-making.

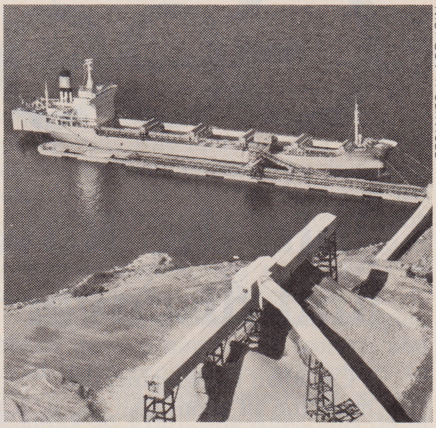
On this premise alone, 1981 and 1982 have given the region much to think about. Significant changes have taken place in all major modes, not always for the better. Towards the end of 1981, there were reductions in the level of passenger rail service. Almost simultaneously, there were adjustments in ferry services to and from Newfoundland, and along that province's coastline. In early 1982, road haulage contractors were unexpectedly faced with changes in the level of assistance under the two acts which govern the rates at which freight moves on the region's highways. The erosion of rail service continues in the Maritimes with applications in the fall by CN to abandon branch lines in all three provinces. These applications cover all Prince Edward Island's remaining railways, and locally important lines to Pictou County in Nova Scotia, and in Kent County, New Brunswick. These seemingly small isolated episodes all add up to a big challenge for businesses struggling to maintain a competitive edge.

Port statistics to the end of September reflect the general course of economic activity. Cargoes through Halifax were down by almost 17 per cent over the same period in 1981, and the more than 40 per cent reduction in tonnage shipped through Saint John and Belledune is eloquent testimony to the depressed state of New Brunswick's resource-based economy. Statistics from CN Marine also give indications of slowdowns in the region's two Island economies; commercial traffic on the North Sydney-Port aux Basques run recorded only a slight increase to the end of September over a year earlier, and commercial traffic to and from Prince Edward Island was down by 12 per cent over the same time period.

Container shipments were mixed. Halifax handled a significantly reduced number in the first full year of operation without two big lines which moved from the port to other terminals in 1981. In Saint John, however, two new lines began calling regularly and containerized cargoes registered an increase of about 11 per cent.

Some of the more intriguing aspects of international shipping were felt by the region during 1982. A potential strengthening of the cartel which sets rates for much North Atlantic shipping was regarded with some concern by regional ports with the fear that it would entail more lines moving elsewhere. This uncertainty still remains. A series of legal moves designed to reverse Dart Container's decision to move to Montreal from Halifax was unsuccessful. The effects of this move, however, have largely been balanced out by Atlantic Container Line's decision to consolidate its Eastern Canadian operations in Halifax at the expense of Montreal, a welcome reversal of previous trends.

There are signs, too, that the region's other major transportation concerns are



N.S. GOV'T SERVICES

gradually adjusting to changed circumstances. Newfoundland's two biggest private shipping lines joined forces to battle CN-owned Terra Transport for the $65-million Newfoundland coastal trade. Newfoundland Steamships (which merged with Atlantic Freight Lines to form Atlantic Container Express) had been subsidized to the end of last March by the federal government on goods shipped from Montreal. This subsidy was abruptly withdrawn and has caused reappraisal of the means of doing business. And Eastern Provincial Airways announced a merger with CP Air. Initially, the merger entails some integration of routes, equipment, staff and services.

All in all, transportation operators have undergone a trying time over the past two years, aggravated by acute recession. No one disputes the importance of effective transport facilities to the overall economic development of the region, and the encouraging signs of change during the second part of 1982 indicate that adjustments to new circumstances are occurring. ■

DAVID NICHOLS

Tourism:

APEC
Atlantic Canada '83

People everywhere stay closer to home

The past year has been one of limited advances and many setbacks for Atlantic Canada's billion-dollar tourist industry. There is no doubt that in these times of severe recession and consumer restraint, visitors are more difficult to attract. Final figures will likely show tourist spending down slightly at best.

In general, the season started slowly. July showed an improvement, with traffic above 1981 levels in some areas. Reported levels for the latter part of the season were mixed. Higher gas prices and an uncertain economy continued to keep many people closer to home. Even the motor-coach trade, which has been increasing in recent years, showed a decline in most areas. Motor-coach travellers tend to be older, retired people who are especially sensitive to prolonged periods of high inflation and economic uncertainty. Travellers were also looking for bargains in 1982, frequenting lower-priced motels and campgrounds; most campgrounds had substantially higher occupancy rates.

There was also a decline in American tourists, and more inter-provincial travel. In New Brunswick, for example, American tourists represented 45 per cent of all tourists in 1973; this was down to 27 per cent in 1982.

Final tallies for Prince Edward Island will likely be down from 1981 levels; passengers on both ferry crossings were fewer in number. New Brunswick should hold its own with tourist spending expected to pass the $300-million mark in 1982. An increase in traffic from Quebec could make up for a decline in American tourists. Nova Scotia's $510-million industry has without doubt benefited from the Old Home Summer promotion, although numbers are likely to be down slightly from 1981. The promotion helped the industry through a very difficult year, and probably persuaded a great many Nova Scotians to spend their summer at home. It is probable that visitors to Newfoundland were down in 1982. Preliminary statistics show total passengers using the Argentia ferry were down 27 per cent with one ferry removed from service. This reduction in service seems to have had quite an effect on tourist traffic to Newfoundland, and further reductions in capacity planned for 1983 may make travel to Newfoundland even more complicated than it is at present. Vacationers arriving by air registered a slight increase, and specialty tours (such as Labrador fishing tours) are still proving to be most popular.

Although 1982 will not match 1981 in the level of tourist activity, the immediate future looks relatively bright. Non-traditional areas, such as conference activity and business travel, hold great promise. Major cities in the region are expanding, or have expanded, hotel space; and exhibition space is springing up in Saint John and Halifax.

In general, provincial governments are spending more on tourist promotion. Themes are proving popular and successful, and both Nova Scotia and Newfoundland are planning major promotions along these lines for 1983. Renewed growth in the tourist industry, however, will rely heavily on full recovery of the North American economy. ■

P.E.I. TOURISM

Labour:

APEC Atlantic Canada '83

New jobs and new skills needed

The Atlantic labour scene in 1982 prompts two major questions: What can we do to correct current high levels of unemployment? And: Can present labour supply meet occupational skill requirements for the 1980s and 1990s? Examination of present circumstances reveals somewhat different conditions from those which prevailed in the 1960s and 1970s, and there seems no reason to assume that past circumstances will ever prevail again.

Unemployment in the seventies was mostly a problem for a growing number of younger workers as the baby-boom entered the labour force, and of finding jobs for the increasing number of women who entered the market. But this situation changed. In 1982, few people were immune to layoffs regardless of skills, experience, or seniority. Successive months recorded unemployment levels unheard of since the 1930s. Many so-called prime-aged workers (those aged 25 to 55, with training and experience) joined the ranks of the unemployed, both blue-collar and white-collar workers alike. Normally, such workers enjoy some measure of job security during economic slowdown; the present recession has seen many take early retirement instead of the uncertainty of layoff and possible recall, or of looking for other work.

The unemployment statistics are not the whole story. Many workers have left the labour force after months of discouraging search for work and are not included as "unemployed". These workers would, however, re-enter the market if opportunities arose. Declining participation rates over the past 18 months testify to this trend in labour markets. (Participation rates identify the proportion of population between the ages of 15 and 65 who are either working or looking for work.) The return of discouraged workers to the labour market when opportunities arise will also keep unemployment rates fairly high during the initial recovery period.

The duration of the present recession in Atlantic Canada also adds to the problems of the unemployed. By the end of 1982, many laid-off workers were running out of UIC entitlements. The alternatives are, of course, welfare or other forms of social assistance. In an effort to avoid increasing numbers on welfare rolls, the federal government announced in October, 1982, the creation of a $500-million job creation program aimed particularly at the hardest-hit regions. Many communities in Atlantic Canada certainly qualify for aid.

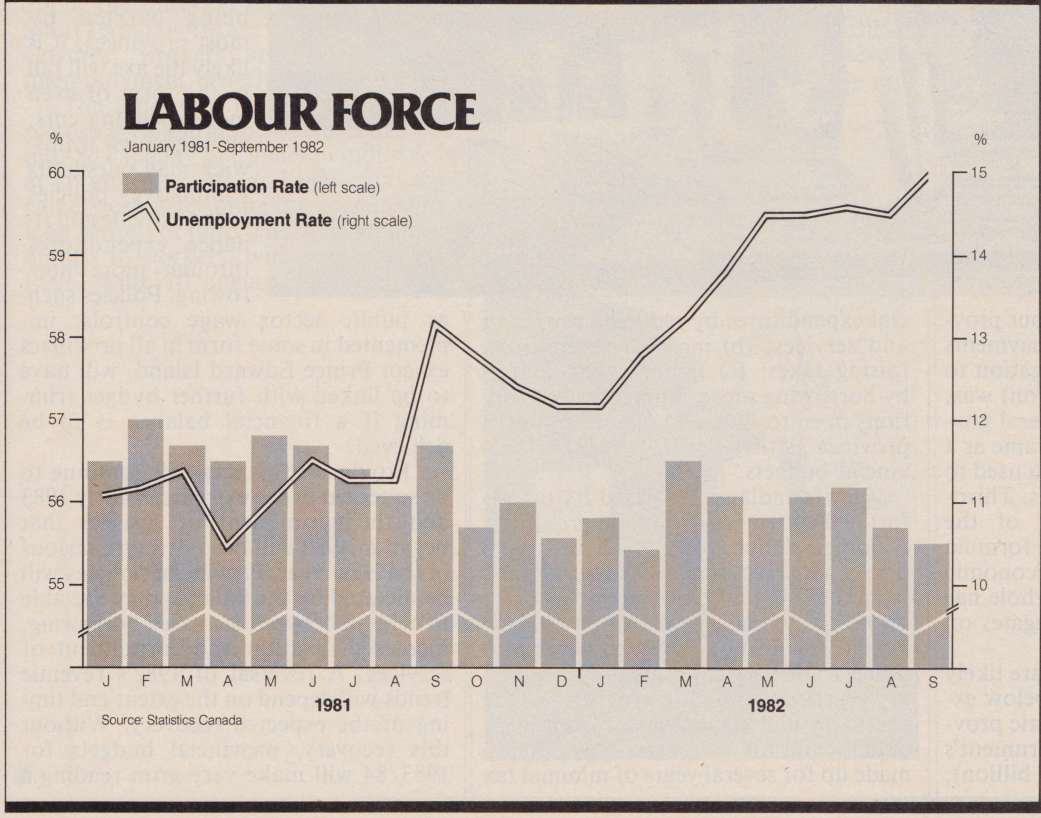
Two factors are restricting the ability of governments to address unemployment adequately; fiscal restraint and the depressed state of world markets. High interest rates have seen government deficits reach horrendous levels, and the traditional standby of public spending to ease the slowdown is correspondingly limited. With many other claims on the few funds available (such as homeowners and small businesses), the capacity to act is reduced even further.

The region relies to a large degree on selling natural resources in export markets. Any return to normal levels of operation must first await a return to normal levels of buying in these markets, a trend which is largely beyond the influence of federal or provincial policy-makers. Any sustained recovery in the region will need a corresponding recovery in the United States particularly, and even in this case there will be a time-lag before effects arrive in the region.

It is also likely that skill requirements in Atlantic Canada will be different over the next 10 or 15 years. The Economic Council of Canada in a recent study remarked that over the next two decades, a person must be trained in more skilled technical occupations to take full advantage of market opportunities. Mechanical and electrical skills were emphasized especially. Higher levels of training will be required both on the shop floor and in the office.

This translates into accurate identification of labour skill requirements at present, to accommodate future demand. Labour occupational demand forecasting becomes a vital part of this process. To an extent, this would replace traditional training programs based, essentially, on a client demand basic. Existing educational institutions must also ask themselves whether the programs they offer will match future demands for skills, and whether they are flexible enough to change rapidly.

A high quality and well-trained labour force designed to meet requirements of the future not only means employment opportunities in well-established industries, but can also be used as a tool to attract new industries. In Atlantic Canada, the potential for job creation will depend to a large degree on new industry to provide the region with a more diversified economic base. Skill-training is a most important part of this process.



The Public Sector:

APEC
Atlantic Canada '83

On deficits and restraint

Government programs and services in all four Atlantic provinces are facing difficult times due to declining government revenues. This pressure on revenues is directly attributable to the severe recession which has gripped the Canadian economy since mid-1981. All provinces are feeling the revenue pinch with government income below levels projected in spring budgets. Corporate income tax revenues have been lower than expected with plummeting company profits. The prolonged slump in consumer spending has reduced sales tax receipts. High interest rates are making government borrowing very expensive and debt servicing is placing an enormous burden on already pressed provincial treasuries.

A further decline in provincial fortunes comes as a result of reductions in federal/provincial transfers. These reductions have four clear causes. Firstly, transfers are based on population and the 1981 census revealed that previous estimates for the Atlantic region overstated the actual number of people living here. This meant not only a reduced level of transfers to the four provinces, but also substantial overpayments since about 1978. A legal obligation to repay these transfers ($86 million) was, in the event, waived by the federal government. Secondly, reduction came as a result of revision to the formula used to calculate equalization payments. Thirdly, there was also a review of the Established Program Financing formula in 1982. And finally, the poor economic performance of Canada as a whole has affected the complicated aggregates on which transfers are based.

As a result, these transfers are likely to be more than $130 million below expected levels for the four Atlantic provinces. Given the federal government's own substantial deficit ($23.6 billion), support beyond existing levels is unlikely, if not impossible. In fact, federal authorities seem to be in the process of shifting more financial responsibility for health and education programs to the provinces. The Atlantic provinces with their smaller fiscal capacities will be left with little room for manoeuvring as more and more discretionary spending is directed towards essential services.

In the face of reduced revenues, the provinces are left with three courses of action: (a) reduce the growth of provincial expenditures by reducing programs and services; (b) increase revenues by raising taxes; (c) increase net deficits by borrowing more. These were the options open to financial planners in each province as they drew up 1982/83 provincial budgets.

Newfoundland increased its tax effort in an attempt to maintain programs. A larger deficit reflects an effort to deflect some recessionary pressures away from the slumping construction industry through a dramatic increase in capital expenditures. Prince Edward Island continues to be very cautious in its budgetary practices, trimming programs where necessary and staying away from large deficits and tax increases. Nova Scotia made up for several years of minimal tax increases in the 1982/83 budget with increases in most taxes. This, combined with some program trimming and other austerity measures, allowed officials to reduce the size of the deficit for the first year in several. Borrowing requirements are still very large, however, and debt servicing ranks third behind education and health in current account spending. The New Brunswick budget was the most stimulative of the four. A dramatic increase in the deficit and minimal tax increases were designed to bridge the gap between current economic conditions and the long-run potential of the economy.


DAVID NICHOLS

Unfortunately the economy has grown worse since these budgets were introduced and revenues are substantially below projected levels. As a result, current account deficits are expected to rise substantially in every province.

Nova Scotia's deficit will increase from a projected $129 million to over $170 million even with the $33 million in cutbacks already implemented. With the heavy debt loads being carried by most provinces, it is likely the axe will fall in the form of even more spending cuts, although New Brunswick may pursue its stimulative policies to the extreme and finance expenditures through more borrowing. Policies such as public sector wage controls, implemented in some form in all provinces except Prince Edward Island, will have to be linked with further budget trimming if a financial balance is to be achieved.

Provincial finances will continue to be squeezed in the extreme in early 1983 and the curtailment of services that began in 1982 will become more serious in the New Year. Provincial policies will be dictated by the balance they are able to achieve between increased borrowing, increased taxation and curtailment of services. A reversal of 1982's revenue trends will depend on the extent and timing of the expected recovery. Without this recovery, provincial budgets for 1983/84 will make very grim reading.■

Atlantic Canada:

The outlook

The current state of the economy, both in the Atlantic region and elsewhere, is creating hardships for almost everyone. Few people remain untouched by the recession. Workers are laid off often with little chance of recall. Businessmen have lost firms that would have perhaps survived in a better economic climate. Farmers and fishermen have been forced to sell assets to meet loan payments, or to pay higher input costs at a time when markets have slumped. Even those who are not directly affected are usually close to someone (a relative or friend) who has lost his job or his business.

The response of policy-makers to the current dilemma appears to be in a state of flux. A strong commitment in most of the Western world over the past 18 months to restrictive monetary policy ensured that interest rates stayed high. The focus was to reduce spiralling inflation rates and the ravages they produce. But the policy-makers did not foresee the extent of the recession that would result, at least in part, by restricting growth of the money supply.

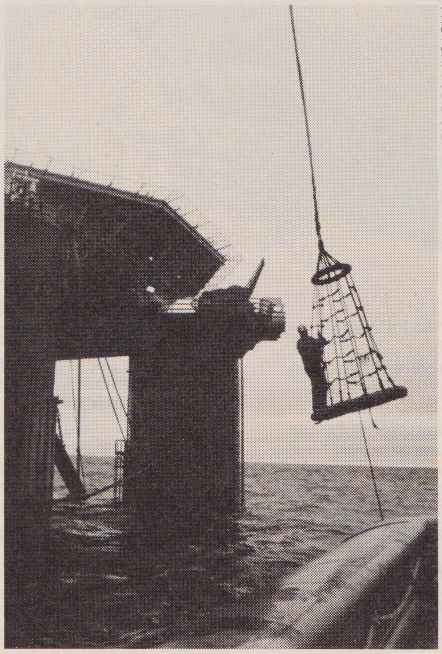
In all Western countries, unemployment has risen to staggering levels. At first, this was seen as an acceptable, albeit unpleasant, short-term trade-off in the battle against inflation. But gradually alarm has been increasing for not only the numbers of unemployed, but also about the duration of unemployment. Short-term layoffs are turning into plant closures; workers are moving from unemployment benefits to welfare.

The long-term implications of this picture are painful to contemplate. The unused capacity in Canadian industry is at an all-time high, and plant and machinery can deteriorate if left unused for long periods of time. The same argument applies to workers, who gradually lose their skills if unemployed for long periods. The costs to both individuals and society in such a situation are enormous.

Both governments and industry are anticipating a long period of readjustment, with continuing high unemployment rates, particularly among the young. Some analysts are now speculating that some major Canadian plants may never reopen. If they do, they will have incorporated major technological change into the production process. This would further reduce demand for labour, aggravating already high unemployment levels.

Concern among policy-makers over the depth and duration of the recession surfaced in the fall of 1982. Finance Minister Marc Lalonde announced at the end of October that he was setting up a board of key Canadian economists to advise on policy matters. This was followed shortly by the announcement of a three-year investigation into the Canadian economy by a royal commission. While these events by themselves do not represent a shift in policy (away from focussing primarily on reducing inflation) there are indications that more attention is directed towards the plight of the unemployed. There have been announcements of job-creation programs, and stimuli to certain lagging industries, such as steel.

All these announcements indicate the extent of the federal concern over Canada's poor economic performance, particularly when compared to its major trading partners. Inflation has fallen to about 10.5 per cent, but this compares to less than 6 per cent in the United States. Canada's competitive position and its economic recovery will be severely handicapped if we cannot bring production costs more into line with those of our trading partners.



PHOTON/MOBIL OIL

All this makes it an interesting time for those analysts who attempt to foresee where the economy is going. Most agree that there will be some slight growth in the Canadian economy in 1983, but the actual extent of the growth is widely disputed. Big policy shifts or changes in international markets could change any forecasts made at this time. Uncertainty prevails in the Atlantic region, but there are still many bright spots on the horizon. These include offshore oil and gas developments and work on other major energy projects. Modernization is under way in pulp mills throughout the region.

Each province still has problems: our open economy and dependence on the export of raw materials, the markets for which have fallen sharply in recent months; structural problems in some of the region's key industries, such as mining and the fishery; disputes between governments over topics such as management of offshore resources which is slowing exploration; a generally fragile economic base which involves problems such as a vulnerable tax base even when the Canadian economy is doing well.

Given these uncertainties it is indeed difficult to give confident outlooks for each of the provincial economies. Currently, it looks as though Nova Scotia will suffer the least from recession, and new developments offshore could put the province in the forefront in 1983. Improvements in major export markets, however, such as for minerals and forest products, could see resurgence for both New Brunswick and Newfoundland. More tourists and better prices for potatoes could have the same stimulative effect for Prince Edward Island. In general, however, slow recovery and a long period of readjustment can be expected over the next year or two. It will be a measure of the region's resourcefulness and farsightedness to see what lessons can be learned from the present and used to prepare for the future. ■

TELIDON

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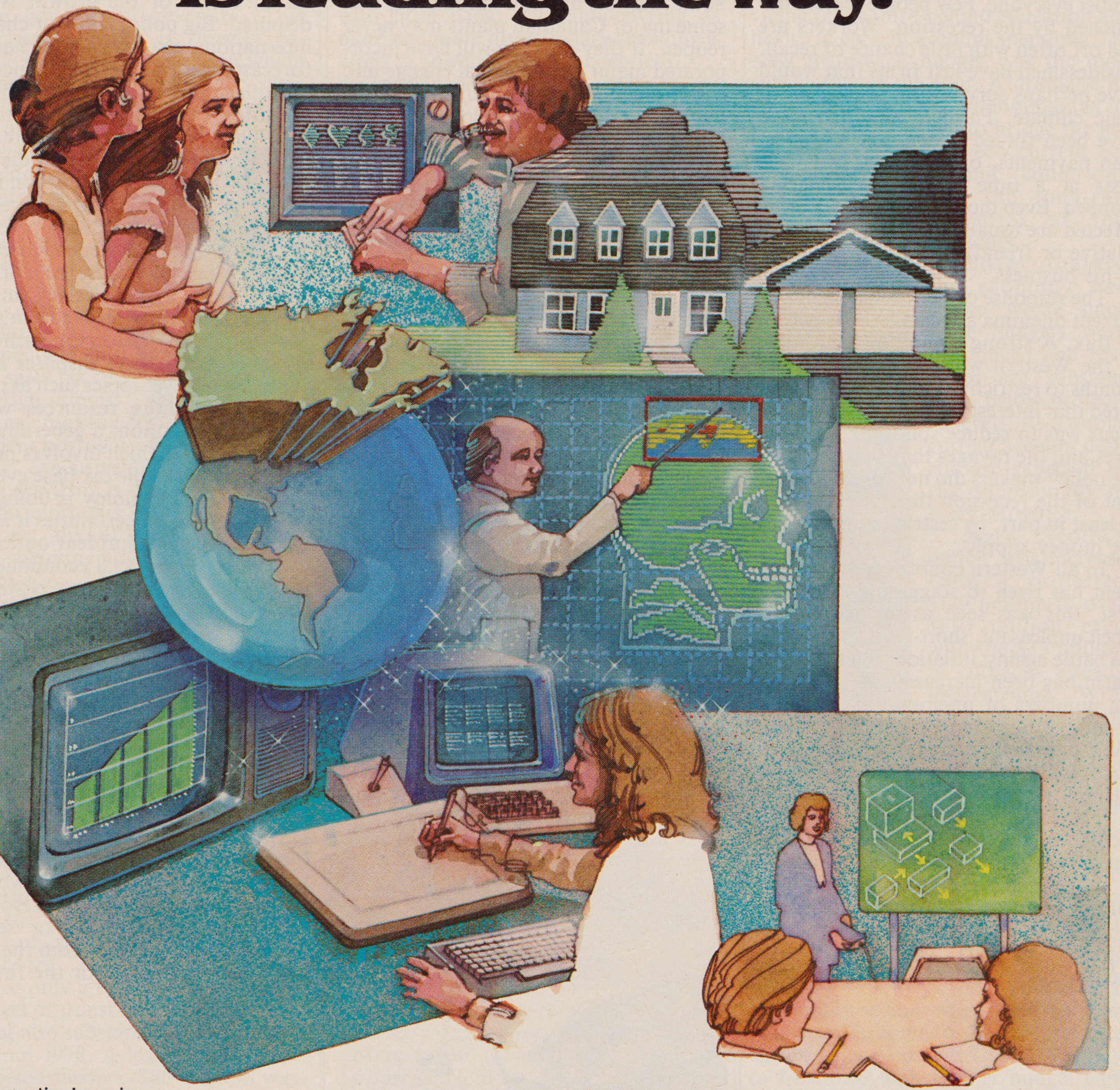

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